

In the Matter of)
)
Connect America Fund) WC Docket No. 10-90

¹ MAG is comprised of the following thirteen Minnesota rural local exchange carrier (“RLEC”) entities that have elected the ACAM Path: Arvig Enterprises, Inc. (“Arvig”); Christensen Communications Company (“Christensen”); Hanson Communications, Inc. (“Hanson”); Interstate Communications Cooperative, Inc. (“Interstate”); Larson Utilities, Inc. (“Larson”); Mabel Cooperative Telephone Company (“Mabel”); Northern Telephone Company/Wilderness Valley Telephone Company (“Northern”); New Ulm Telecom, Inc. (“New Ulm”); Park Region Mutual Telephone Company (“Park Region”); Rural Communications Holding Company (“RCHC”); Rothsay Telephone Co., Inc. (“Rothsay”); and Wikstrom Telephone Company, Inc. (“Wikstrom”).

authorized to receive revised ACAM support of \$21,559,568 per year for ten years, and has a corresponding build-out obligation of 20,993 25/3 Mbps locations, 6,998 10/1 Mbps locations, 2,732 4/1 Mbps locations, and 2,732 “reasonable request” locations.

Christensen, a Minnesota RLEC, accepted an original ACAM offer of \$779,753 per year for ten years, and an associated build-out obligation comprised of 178 25/3 Mbps locations, 60 10/1 Mbps locations, 91 4/1 Mbps locations, and 91 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$536,263 per year for ten years, and has a corresponding build-out obligation of 83 25/3 Mbps locations, 28 10/1 Mbps locations, 154 4/1 Mbps locations, and 155 “reasonable request” locations.

Hanson, a Minnesota RLEC, accepted an original ACAM offer of \$3,095,451 per year for ten years, and an associated build-out obligation comprised of 1,498 25/3 Mbps locations, 500 10/1 Mbps locations, 234 4/1 Mbps locations, and 234 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$2,572,081 per year for ten years, and has a corresponding build-out obligation of 1,179 25/3 Mbps locations, 393 10/1 Mbps locations, 447 4/1 Mbps locations, and 447 “reasonable request” locations.

Interstate, a Minnesota RLEC, accepted an original ACAM offer of \$1,302,031 per year for ten years, and an associated build-out obligation comprised of 204 25/3 Mbps locations, 204 10/1 Mbps locations, 92 4/1 Mbps locations, and 279 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$994,999 per year for ten years, and has a corresponding build-out obligation of 155 25/3 Mbps locations, 156 10/1 Mbps locations, 117 4/1 Mbps locations, and 351 “reasonable request” locations.

Larson, a Minnesota RLEC, accepted an original ACAM offer of \$1,819,823 per year for ten years, and an associated build-out obligation comprised of 365 25/3 Mbps locations, 365 10/1

Mbps locations, 107 4/1 Mbps locations, and 323 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$1,423,622 per year for ten years, and has a corresponding build-out obligation of 243 25/3 Mbps locations, 244 10/1 Mbps locations, 168 4/1 Mbps locations, and 505 “reasonable request” locations.

Mabel, a Minnesota RLEC, accepted an original ACAM offer of \$782,307 per year for ten years, and an associated build-out obligation comprised of 282 25/3 Mbps locations, 94 10/1 Mbps locations, 71 4/1 Mbps locations, and 71 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$633,384 per year for ten years, and has a corresponding build-out obligation of 186 25/3 Mbps locations, 63 10/1 Mbps locations, 134 4/1 Mbps locations, and 135 “reasonable request” locations.

Northern, which operates two small Minnesota RLECs, accepted an original ACAM offer of \$391,681 per year for ten years, and an associated build-out obligation comprised of 47 25/3 Mbps locations, 144 10/1 Mbps locations, 10 4/1 Mbps locations, and 30 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$330,942 per year for ten years, and has a corresponding build-out obligation of 33 25/3 Mbps locations, 101 10/1 Mbps locations, 24 4/1 Mbps locations, and 73 “reasonable request” locations.

New Ulm operates ILEC study areas in both Minnesota and Iowa. For Minnesota, it accepted an original ACAM offer of \$8,354,481 per year for ten years, and an associated build-out obligation comprised of 5,364 25/3 Mbps locations, 1,789 10/1 Mbps locations, 380 4/1 Mbps locations, and 380 “reasonable request” locations. It is currently authorized to receive revised ACAM support for Minnesota of \$6,118,567 per year for ten years, and has a corresponding build-out obligation of 3,414 25/3 Mbps locations, 1,138 10/1 Mbps locations, 1,680 4/1 Mbps locations, and 1,681 “reasonable request” locations. For Iowa, New Ulm

accepted an original ACAM offer of \$596,084 per year for ten years, and an associated build-out obligation comprised of 131 25/3 Mbps locations, 131 10/1 Mbps locations, 32 4/1 Mbps locations, and 96 “reasonable request” locations. It is currently authorized to receive revised ACAM support for Iowa of \$391,896 per year for ten years, and has a corresponding build-out obligation of 73 25/3 Mbps locations, 73 10/1 Mbps locations, 61 4/1 Mbps locations, and 183 “reasonable request” locations.

Park Region, a Minnesota RLEC, accepted an original ACAM offer of \$3,501,249 per year for ten years, and an associated build-out obligation comprised of 3,057 25/3 Mbps locations, 1,020 10/1 Mbps locations, 137 4/1 Mbps locations, and 137 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$3,092,315 per year for ten years, and has a corresponding build-out obligation of 2,735 25/3 Mbps locations, 912 10/1 Mbps locations, 352 4/1 Mbps locations, and 352 “reasonable request” locations.

RCHC, which owns and operates multiple Minnesota RLECs, accepted an original ACAM offer of \$6,371,431 per year for ten years, and an associated build-out obligation comprised of 3,758 25/3 Mbps locations, 1,253 10/1 Mbps locations, 512 4/1 Mbps locations, and 512 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$4,433,893 per year for ten years, and has a corresponding build-out obligation of 2,784 25/3 Mbps locations, 928 10/1 Mbps locations, 1,161 4/1 Mbps locations, and 1,162 “reasonable request” locations.

Rothsay, a Minnesota RLEC, accepted an original ACAM offer of \$611,099 per year for ten years, and an associated build-out obligation comprised of 35 25/3 Mbps locations, 107 10/1 Mbps locations, 48 4/1 Mbps locations, and 145 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$448,181 per year for ten years, and has a

corresponding build-out obligation of 24 25/3 Mbps locations, 73 10/1 Mbps locations, 59 4/1 Mbps locations, and 179 “reasonable request” locations.

Wikstrom, a Minnesota RLEC, accepted an original ACAM offer of \$8,405,565 per year for ten years, and an associated build-out obligation comprised of 1,211 25/3 Mbps locations, 3,633 10/1 Mbps locations, 435 4/1 Mbps locations, and 1,308 “reasonable request” locations. It is currently authorized to receive revised ACAM support of \$6,782,806 per year for ten years, and has a corresponding build-out obligation of 997 25/3 Mbps locations, 2,992 10/1 Mbps locations, 649 4/1 Mbps locations, and 1,949 “reasonable request” locations.

**Full ACAM Funding Will Bring Essential and Affordable
Broadband Capability to Many More High-Cost, Rural Locations**

The Commission has noted in this and other proceedings that access to a broadband connection has become an essential tool for participating in the 21st Century economy. See, *e.g. Lifeline and Link Up Reform and Modernization*, Third Report and Order, Further Report and Order, and Order on Reconsideration, WC Docket No. 11-42 *et al.*, FCC 16-38, released April 27, 2016, at par. 13.

Without even considering the complications and potential distortions of operating ACAM at less than optimal levels, full funding serves the public interest by enabling the deployment of affordable broadband facilities and services to a substantially larger number of rural customer locations, often located in the most remote, sparsely populated and highest cost portions of RLEC service areas. Arvig, the largest of the MAG members, will be permitted by a fully-funded \$200 per location benchmark to deploy 25/3 Mbps broadband service to at least an additional 2,221 rural Minnesota customer locations (a 10.58 percent increase over its current build-out obligation), and 10/1 Mbps broadband service to at least an additional 741 locations (a 10.59 percent increase). Mid-sized MAG members like New Ulm [at least 1,950 additional 25/3

Mbps rural Minnesota locations (a 57.12 percent increase) and at least 651 additional 10/1 rural Minnesota locations (a 57.20 percent increase)], RCHC [at least 974 additional 25/3 Mbps rural Minnesota locations (a 34.99 percent increase) and at least 325 additional 10/1 rural Minnesota locations (a 35.02 percent increase)], Wikstrom [at least 214 additional 25/3 Mbps rural Minnesota locations (a 21.46 percent increase) and at least 641 additional 10/1 rural Minnesota locations (a 21.42 percent increase)] and Park Region [at least 322 additional 25/3 Mbps rural Minnesota locations (a 11.77 percent increase) and at least 108 additional 10/1 rural Minnesota locations (a 11.84 percent increase)] would all be able to deploy 25/3 Mbps and 10/1 Mbps broadband to substantially increased numbers and percentages of their rural Minnesota customer locations. Finally, while the absolute numbers are not large, smaller MAG members like Christensen [at least 95 additional 25/3 Mbps rural Minnesota locations (a 114.58 percent increase) and at least 32 additional 10/1 rural Minnesota locations (a 114.28 percent increase)], Northern [at least 14 additional 25/3 Mbps rural Minnesota locations (a 42.42 percent increase) and at least 43 additional 10/1 rural Minnesota locations (a 42.57 percent increase)], Mabel [at least 96 additional 25/3 Mbps rural Minnesota locations (a 51.61 percent increase) and at least 31 additional 10/1 rural Minnesota locations (a 49.20 percent increase)] and Rothsay [at least 11 additional 25/3 Mbps rural Minnesota locations (a 45.83 percent increase) and at least 34 additional 10/1 rural Minnesota locations (a 46.58 percent increase)] will be able to significantly increase the relative numbers of customer locations to which they can deploy 25/3 Mbps and 10/1 Mbps broadband facilities and service.

In sum, in rural Minnesota alone, full ACAM funding will permit the extension of access to 25/3 Mbps and 10/1 Mbps broadband connections to substantially larger numbers and percentages of customer locations. ACAM support not only will permit broadband service to be

extended to these additional customer locations, but also will enable such service to be provided at affordable rates. For these reasons alone, full funding of ACAM to its optimized \$200 per location funding benchmark (which is estimated to require the allocation of a total of approximately \$310 million per year from the CAF Reserve) should be adopted.

**Full Funding Will Minimize Inequities and Distortions
That Can Impair the Workings and Results of the ACAM Experiment**

ACAM is in many respects an experiment to determine whether broadband facilities and services can be deployed successfully in the most sparsely populated and difficult-to-serve portions of Rural America via a support mechanism different from the traditional rate-of-return programs. The specificity and predictability of ACAM support has attracted a significantly larger than expected number of RLECs that are willing to build out their broadband networks under a model-based system that contains many of the characteristics of incentive regulation. Whereas ACAM can be modified somewhat to fit various budgets, the experiment in alternative funding and regulation will be most likely to produce accurate results and guidance if ACAM is run at the \$200 per-location funding benchmark at which it was optimized.

MAG members are aware that the per-location funding benchmark for the price cap CAF Phase II model is \$146.10. However, it is their understanding that the \$146.10 price cap benchmark does not constitute a cost-based or otherwise technically significant number, but rather was the funding benchmark that matched (a) the amount of model-based support to be distributed to participating price cap carriers with (b) the amount of the Universal Service Fund (“USF”) budget allocated to those price cap carriers.

RLECs generally serve the areas that the price cap carriers never wanted or sold off when the opportunity arose – that is, the areas with the most sparse populations and/or difficult terrain or climate where the business case for deploying telecommunications networks is least attractive.

RLEC loop costs, and other investment and operating expenses, are generally much higher per customer and per location than those of the price cap carriers.

Consequently, it appears obvious that the per-location funding benchmark for ACAM support should be considerably higher than that for price cap model-based support. Yet, the current revised ACAM funding benchmark has not only been reduced initially from \$200 to the \$146.10 price cap level, but then ACAM support offers have been further reduced by percentages ranging from 4.03882 percent to 20 percent on the basis of each participating RLEC's 10/1 Mbps deployment. Whereas MAG members and other RLECs have accepted the reduced ACAM offers (and associated reduced build-out obligations) and understand that the Commission was forced to deal with funding and budget limitations, the unfortunate fact remains that the significantly smaller and higher-cost RLECs are currently scheduled to receive less model-based support per location than the much larger and lower-cost price cap carriers.

Full funding of ACAM will change this unfortunate situation. It will allow ACAM to set RLEC support amounts and build-out obligations at the \$200 per-location funding cap at which ACAM was optimized for the August 3, 2016 offers. Whereas the Wireline Bureau did the best that it could under difficult conditions and time constraints, the fact is that the August 3, 2016 ACAM support offers and build-out obligations were based upon a complex modeling process that employed multiple factors, while the revised December 20, 2016 offers and build-out obligations were based significantly upon percentage reductions necessary to stay within the revised CAF Reserve allocation and hold the funding cap nominally at the \$146.10 price cap level. Where diverse calculation methods are mixed and changed in this manner, there are bound to be unforeseen errors and discrepancies that will disrupt or preclude compliance by at least

some RLECs with their revised build-out obligations and render Commission administration of ACAM far more complicated than expected.

Full funding will permit the ACAM to operate at the \$200 per location funding benchmark at which it was designed and optimized. Support and build-out obligations will be specified on the basis of the model's data, formulas and calculations. Unforeseen flaws and problems introduced by reducing the per-location funding benchmark down from \$200 to \$146.10, by the additional percentage reductions used to bring ACAM support distributions down to budget, and by attempts to adjust build-out obligations in accordance with support reductions will be avoided.

**Full Funding Will Avoid Another Round of RLEC Decisions
With Respect to Revised ACAM Support Offers and Build-Out Obligations**

Finally, the *Further Notice* asks whether the Commission should increase its funding of ACAM by an amount greater than the current allocation of \$200 million from the CAF Reserve but less than the approximate \$310 million per year of allocated CAF Reserve needed for full funding. MAG members strongly urge full funding, but would welcome any additional ACAM funding.

They point out that anything less than full funding will require another round of revised ACAM support offers, revised build-out obligations, and new analyses and determinations by participating RLECs as to whether to accept or turn down the further revised support offers and build-out obligations. MAG members note that they have all agreed that their acceptances of the revised December 20, 2016 offers were conditioned upon their agreements to meet the terms of the original August 3, 2016 offers if additional high-cost support becomes available in 2017 to fund the original offers.

Hence, as yet a third reason for Commission adoption of full funding, the MAG members note that full funding can be implemented immediately upon the Commission's decision, and that no further ACAM revisions or RLEC election periods would be required.

Conclusion

MAG urges the Commission to fully fund the ACAM Path, and to take full advantage of the present unique and unprecedented opportunity to significantly accelerate the deployment of broadband in Rural America via a new model-based support mechanism. A fully funded ACAM not only provides the type of specific, predictable and sufficient high-cost support that can be expected to prove effective and efficient in encouraging rural broadband investment and deployment, but also avoids unforeseen implementation and administrative problems likely to arise from fiddling with the optimized ACAM numbers to force compliance with budget constraints.

Respectfully submitted,
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